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December 29, 2005

HAND DELIVERY

Mary L. Cottrell
Secretary of the Department
Department of Telecommunications and Energy
One South Station – 2nd Floor
Boston, MA 02110

Re: DTE 05-85, NSTAR Electric
Comments of Intervene of Dominion Retail, Inc.

Dear Ms. Cottrell:

Enclosed for filing are an original and ten copies of the Comments of Dominion Retail, Inc.'s in this proceeding. Kindly return a date-stamped copy of the document in the self-addressed, stamped envelope provided.

Should you have any questions, do not hesitate to give me a call.

Yours truly,

CH Kallaher

Christopher H. Kallaher

Enclosure

Cc: Service list

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Boston Edison Company Cambridge Electric Light Company Commonwealth Electric Company NSTAR Gas Company	))))))	D.T.E. 05-85

COMMENTS OF DOMINION RETAIL, INC.

Dominion Retail, Inc. ("Dominion Retail") respectfully requests that the Department consider the following written comments in advance of the public hearings scheduled for this evening. While Dominion Retail does not take a position on the proposed settlement submitted by NSTAR, the Attorney General, Associated Industries of Massachusetts, and the Low-Income Energy Affordability Network (the "Settling Parties") as a whole, it does wish to make the following comments regarding several matters relating to the proposed settlement.

I. Procedural Issues

The proposed settlement has been presented to the Department as an all-or-nothing, take-it-or-leave-it matter, for consideration in a very short time frame after which the proposed settlement expires if not approved. The proposed settlement was filed on December 6, 2005 and noticed on December 7, 2005. The Settling Parties seek approval by December 30, 2005. The documents setting forth the substance of the underlying base rate case, against which the proposed settlement would have to be measured for purposes of determining whether it is in the public interest, are voluminous. Moreover, the proposed settlement was negotiated with little or no input from other interested parties, including Dominion Retail, and includes matters that fall outside the usual subject matter of a base rate case. Had other parties been involved earlier in the process, expedited review might be appropriate. As it is, however, the filing of the proposed settlement gives the appearance of having been timed to produce a minimum of review and public input.

Dominion Retail encourages the Department to conduct a more comprehensive review of the proposed settlement, with significant input from interested persons who have already been found to meet the criteria for full party status. This would be consistent with the Department's consideration of previous three settlements proposed for rate case filings by the Boston Edison Company, all of which were approved only after suspension, discovery, and adjudicatory hearings. D.P.U./D.T.E. 96-23, D.P.U. 92-92, D.P.U. 89-100. If the Settling Parties believe the proposed settlement is in the public interest as of December 30, 2005, they have given the Department no reason to believe that it would not also be in the public interest after a more appropriate period of substantive review by the Department and interested parties.

II. Proposed Procurement for Residential Electric Customers

Section 2.21 of the proposed settlement states:

> The Settling Parties agree that, in order to reduce rate volatility for small customers that purchase Basic Service, NSTAR Electric shall design its procurement of electricity for residential customers which may be implemented beginning at its next procurement (for effect July 1, 2006) as follows: (1) 50 percent of its load will be procured under one-year contracts; (2) 25 percent of its load will be procured under two-year contract [sic]; and (3) 25 percent of its load will be procured under three-year contracts. NSTAR Electric will work with the Attorney General and LEAN to prepare and propose a staggered schedule of procurements to implement the terms of this provision, including a method for further review and possible modification for contracts of longer terms.

Dominion Retail encourages the Department to reject this section of the proposed settlement, for several reasons. First, the issue addressed by this provision is unrelated to NSTAR Electric's base distribution rates. Default service for residential customers is procured and provided by NSTAR Electric on a purely pass-through basis, and all of the direct costs associated with it are included in the default service rate. *See, e.g.*, D.T.E. 03-88A-C (determining nature and amount of costs to be included in default service rate). Thus, as a matter of Department precedent, the intersection between direct costs for providing default service and the costs of providing distribution service is the null set, and it is inappropriate for the Settling Parties to include this provision in a proposed settlement of a base distribution rate case. Further, the procurement policy for default service is under active consideration by the Department in D.T.E. 04-115, a docket in which a number of parties (including Dominion Retail and the Settling Parties or their representatives) participated actively over a number of months, through three rounds of written comments and an all-day technical session. There is no reason to consider this issue outside of D.T.E. 04-115.

Finally, the proposal in Section 2.21 is substantially flawed. As discussed in detail in D.T.E. 04-115, contracts of longer than one-year duration are a bad idea for a number of reasons. First, the power market lacks sufficient liquidity for procurements using two- and three-year contracts. Nearly every party agreed that customers would pay a premium for contracts beyond one year in length and that it was difficult to justify such a procurement strategy in terms of any incremental increase in rate stability (assuming additional rate stability beyond that achieved by the current procurement schedule is even a desirable thing, which is unclear). NSTAR Electric's own Director of Electric and Gas Energy Supply, James G. Daly, agreed with this view:

> Longer-term some people think is lower in price. We don't believe it is necessarily lower in price; it just happens to depend on which way the market goes after you lock in a specific contract for whatever length of time. So longer is not necessarily lower. One of the problems we have in the marketplace, where we are constantly changing rules on the wholesale level, is that suppliers have difficulty in terms of hedging their supply positions as they go out longer in time because of the lack of visibility of market rules, possible changes that will come about. And in order to hedge for that uncertainty -- and, of course, they have to deal with commodity-price volatility as well, because prices can change a lot the longer you go. So the result is that they have to build in margin to cover themselves in that situation, which can result in higher prices, not lower prices.

D.T.E. 04-115, June 20 Technical Conference, Tr. At 15-16. In other words, the longer-term procurements proposed in Section 2.21 would do little more than raise prices for residential customers.

Mr. Daly also noted the other significant problem with longer-term procurement for default service: "If you go longer-term, there's a risk that your basic-service price can get out of sync with the market, and therefore impede competition." Id. at 15. The Department's long-standing policy is that default service prices should reflect market prices as much as possible without exposing small customers to unnecessary volatility. The procurement schedule would mute considerably the price signal given to residential customers. This proposal would take the Department in the opposite direction from what most commenters have proposed in D.T.E. 04-115. There is no reason to completely insulate residential customers from appropriate market signals, especially where doing so will result in higher overall prices even than the current procurement schedule. In short, Section 2.21 has little or nothing to recommend it. It would raise rates, mute price signals, and impede competition. Dominion Retail urges the Department to reject Section 2.21 of the proposed Settlement.

III. Proposed Fixed-Price Option for Small Gas Customers

For many of the same reasons the Department should reject Section 2.21, it should also reject Section 2.22 of the proposed settlement, which calls for the establishment of "a fixed-price option for residential and small commercial Default Service customers" of NSTAR Gas. Especially at a time of high natural gas prices and volatility, it is critical that even small customers be given appropriate price signals in order to give such customers an incentive to manage their consumption rationally. Rather than offering a fixed-price option, Dominion Retail encourages NSTAR Gas to retain some seasonality in its rates for smaller customers, and explore with the other Settling Parties and interested persons options that would provide even shorter, monthly price signals to this customer segment. As with default electric service, a fixed-price natural gas contract could also involve a substantial hedging premium, which would be better managed by competitive suppliers for those customers who desire such a product.

For the reasons discussed above, Dominion Retail respectfully requests that the Department reject Sections 2.21 and 2.22 of the proposed settlement, and conduct a full adjudicatory investigation of this matter before making any determination regarding whether the proposed settlement as a whole is in the public interest.

Respectfully submitted,

CH Kallaher

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Dated: December 29, 2005

Certificate of Service

I hereby certify that a copy of the foregoing document was served to the individuals on the attached service list by messenger or First Class Mail, on this 29th Day of December, 2005.

Christopher H. Kallaher

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